

Sharekhan

by BNP PARIBAS

Debt Funds & Picks
July 2017

Index

- Macro Wrap
- Debt Market Wrap
- Debt Market View
- Fund Recommendations
- Selection Criteria

Macro wrap: India Inflation



- Consumer prices in India moved up by 1.5 percent in June of 2017, slowing sharply from 2.18 percent in May and below market expectations of 1.7 percent.
- The inflation rate fell to a fresh record low for the third month as food prices declined faster amid a favourable monsoon. The food index declined 2.12 percent, compared to a 1.05 percent drop in May. -- the biggest decrease ever
- The inflation also eased out for fuel and light (4.54 percent from 5.46 percent), clothing and footwear (4.17 percent from 4.41 percent) and housing (4.7 percent from 4.84 percent)

Macro wrap: Industrial Production



- India's industrial production (IIP) increased by 1.7 percent year-on-year in May 2017, following a downwardly revised 2.8 percent rise in the previous month and missed market expectations
- Industrial activity was weak ahead of roll out of Goods & Services Tax (GST) with the manufacturing output growth slowing down to 1.2 percent from 2.3 percent in April, while mining contracted (-0.9% from 3.2 percent during the month)
- Meantime, electricity production grew sharply by 8.7 percent after increasing by 5.4 percent in May

10 year Bond movement

10-year benchmark G-Sec movement



Source: CRISIL Fixed Income Database

Corporate bond spreads over G-Sec

Spreads		AAA	AA+	AA	AA-	A+
July 5 th 2017	3 Yr	0.48%	0.78%	1.05%	1.37%	1.66%
	5 Yr	0.35%	0.71%	1.00%	1.33%	1.62%
	10 Yr	0.78%	1.12%	1.60%	2.00%	2.34%
Previous Week	3 Yr	0.55%	0.85%	1.12%	1.44%	1.73%
	5 Yr	0.43%	0.79%	1.08%	1.41%	1.70%
	10 Yr	0.81%	1.15%	1.63%	2.03%	2.37%

Source: CRISIL Fixed Income Database

Indian debt market indicators

Indicators	July 7	Previous Week	Trend
Call Rate	6.05%	6.15%	↓
3 M CP	6.70%	6.65%	↑
1 Yr CP	7.17%	7.17%	↔
3 M CD	6.36%	6.30%	↑
1 Yr CD	6.65%	6.65%	↔
3 Yr AAA	7.07%	7.15%	↓
5 Yr AAA	7.19%	7.24%	↓
1 Yr G-Sec	6.37%	6.41%	↓
3 Yr G-Sec	6.54%	6.51%	↑
5 Yr G-Sec	6.74%	6.72%	↑
10 Yr G-Sec	6.53%	6.51%	↑
Forex Reserves	\$ 386.54 bn (June 30)	\$ 382.53 bn (June 23)	↑

Source: CRISIL Fixed Income Database, RBI

Currencies vs the rupee

Currency	July 7	Week ago	3 months ago	1 year ago
USD	64.59	64.58	64.28	67.39
GBP	83.88	84.26	80.26	87.61
Euro	73.88	74.00	68.56	74.83
100 Yen	56.94	57.78	58.19	67.00

Source: RBI, Financial websites

Debt Market Wrap

Liquidity – remains comfortable; call rate stable

- Liquidity position is comfortable. The call money rate settled at 6.05% on July 7 as against 6% in early June.
- Three reverse repo auctions of 28-day, 14-day, and 7-day durations were conducted through which banks got an opportunity to park funds to the tune of Rs 4.5 trillion in money market bonds/treasury bills

Bond Yields: yields on 10 year bond stable; spread over corporate bonds eased in 3-5 yr paper

- Yield of the 10-year benchmark 6.79% 2027 paper settled at 6.53% on July 7 as against 6.50% on June 9.
- Sporadic declines in global crude oil prices and strong domestic demand for government paper supported bond prices
- US Fed Chairperson, Janet Yellen, stated her intentions of unwinding US Fed balance sheet of \$4.5 trillion which bloated up to support economy post 2008 global debt crisis.
- But the process to unwind would be gradual to avoid unnecessary volatility. The easing inflationary pressure domestically also aided sentiments.

Debt Market Outlook

View: Sentiment positive; probability of rate cut high

- The recent comments from the Fed and the sharp fall in CPI inflation improved sentiments
- With inflation remaining below the Reserve Bank of India's mid-term target of 4% for the past eight months, industry participants and the government have sought a cut in interest rates to support economic expansion.
- Consensus view suggests policy rate cut by RBI in its next policy review

Strategy: Prefer Short term Funds & Corporate bond Funds

- We would suggest a mix of 80:20 allocation mix between short term/corporate Fund (80%) and Gilt/long term Fund (20%; play through dynamic bond fund)
- Long dated Fixed Maturity Plans could also be considered as an alternative for a part of the allocation in the Short Term Fund category

Recommendations & Performance- Corporate Bond Fund

Scheme Name	Exit Load	Simple Annualised (%)					CAGR(%)		
		14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Corporate Bond									
Birla Sun Life Medium Term Plan - Reg - Growth	Less than 1 Year Exit Load is 1%	11.2	7.9	12.6	7.7	10.0	10.0	10.3	10.5
UTI Income Opportunities Fund - Growth	Less than 1 Year Exit Load is 1%	9.1	5.6	8.2	7.2	9.5	9.4	9.7	--
Kotak Income Opportunities Fund - Reg - Growth	Less than 1 Year Exit Load is 1%	8.7	4.5	7.6	6.6	9.5	9.5	9.7	9.4
DSP BlackRock Income Opportunities Fund -Growth	Less than 1 Year Exit Load is 1%	10.9	5.8	8.7	6.8	9.4	9.7	9.9	9.5
Short Term									
Birla Sun Life Short Term Fund - Reg - Growth	Exit Load is Nil	9.6	6.9	9.2	6.8	9.1	9.2	9.5	9.5
BNP Paribas Short Term Income Fund - Growth	Exit Load is Nil	9.5	7.2	8.7	6.3	8.3	8.4	8.7	8.8
Reliance Medium Term Fund - Growth	Exit Load is Nil	9.2	7.4	7.6	6.7	8.1	8.5	8.7	8.8
Indices									
Crisil Short Term Bond Fund Index		10.3	7.4	8.9	6.8	8.7	8.9	9.2	9.1

Performance as on 12^h July,2017

Recommendations & Performance- Gilt Funds (play thru dynamic bond funds)

Scheme Name	Exit Load	Simple Annualised (%)				CAGR(%)		
		1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Gilt Fund (Dynamic Bond)								
UTI Dynamic Bond Fund - Reg - Growth	Less than 1 Year Exit Load is 1%	4.5	13.6	7.3	13.8	11.7	11.2	10.8
SBI Dynamic Bond Fund - Growth	Less than 1 Month Exit Load 0.25%	2.5	14.4	7.7	12.6	11.5	11.3	9.5
IDFC Dynamic Bond Fund - Reg - Growth	Exit Load is Nil	0.9	11.4	7.7	12.3	10.5	11.3	9.9
Indices								
Crisil Composite Bond Fund Index		6.6	13.1	5.9	10.9	10.7	11.1	9.6

Performance as on 12^h July,2017

Fund picks: Across categories

Ultra Short Term Funds

Scheme Name	Exit Load	Simple Annualised (%)						CAGR(%)		
		7D	14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Ultra Short Term										
Birla Sun Life Savings Fund - Reg - Growth	Exit Load is Nil	12.6	9.2	7.6	8.4	7.2	8.4	8.7	8.9	9.2
ICICI Prudential Flexible Income Plan - Reg - Growth	Exit Load is Nil	11.8	8.6	7.2	7.8	7.3	8.4	8.6	8.8	9.1
IDFC Ultra Short Term Fund - Reg - Growth	Exit Load is Nil	10.1	7.8	7.1	7.6	7.4	8.1	8.4	8.6	9.0
Index										
Crisil Liquid Fund Index		6.8	6.8	6.7	6.6	6.7	6.8	7.3	7.8	8.2

Liquid Funds

Scheme Name	Exit Load	Simple Annualised (%)						CAGR(%)		
		7D	14D	1M	3M	6M	1Yr	2Yr	3Yr	5Yr
Liquid Fund										
Axis Liquid Fund - Growth	Exit Load is Nil	6.7	6.7	6.6	6.6	6.7	6.9	7.5	7.9	8.4
BNP Paribas Overnight Fund - Growth	Exit Load is Nil	6.4	6.5	6.4	6.4	6.6	6.9	7.4	7.8	8.4
HDFC Liquid Fund - Growth	Exit Load is Nil	6.5	6.5	6.4	6.4	6.5	6.8	7.4	7.9	8.4
Index										
Crisil Liquid Fund Index		6.8	6.8	6.7	6.6	6.7	6.8	7.3	7.8	8.2

Performance as on 12^h July,2017

Annexure: Criteria for scheme selection

- Selection among the top-rated AMC's with a proven track record in debt
- Selection out of this lot, unless a strategy is compelling based on interaction with an AMC outside this universe
- Track record of at least two years of existence for the fund, though there could be some exceptions at times
- Threshold AUM of at least Rs.200 crore and above, though at times strategy would merit consideration as an exception
- Superior risk-adjusted returns

Disclaimer

This document has been prepared by Sharekhan Limited (Sharekhan) and is meant for sole use by the recipient and not for circulation. The information contained in this report is intended for general information purposes only. The information published should not be used as a substitute for any form of investment advertisement, investment advice or investment information. The information in this report has not been prepared taking into account specific investment objectives, financial situations and needs of any particular investor, and therefore may not be suitable for you. You should verify all scheme related information before relying on it. Further, the selection of the Mutual Funds for the purpose of including in the indicative portfolio does not in any way constitute any recommendation by Sharekhan Limited with respect to the prospects or performance of these Mutual Funds. We recommend investors to seek advice from professional financial advisors.

- Mutual funds, like securities investments, are subject to market and other risks and there can be no assurance that the objectives of any of the schemes of the Fund will be achieved. Please read the Offer Document carefully in its entirety prior to making an investment decision
- The NAV of units issued under the Schemes of mutual funds can go up or down depending on the factors and forces affecting capital markets and may also be affected by changes in the general level of interest rates. The NAV of the units issued under the scheme may be affected, inter-alia by changes in the interest rates, trading volumes, settlement periods, transfer procedures and performance of individual securities. The NAV will inter-alia be exposed to Price / Interest Rate Risk and Credit Risk.
- Past performance of any scheme of the Mutual fund do not indicate the future performance of the Schemes of the Mutual Fund. Sharekhan shall not responsible or liable for any loss or shortfall incurred by the investors.
- Investors are not being offered any guaranteed or assured rate of return through this document.

Sharekhan and/or its associates receive commission for distribution of Mutual Funds from various Asset Management Companies (AMCs) and the details of the commission rates earned from various Mutual Fund houses is available on our website. Sharekhan or its associates may have received commission from AMCs whose funds are mentioned in the report during the period preceding twelve months from the date of this report for distribution of Mutual Funds. Sharekhan also provides stock broking services to institutional clients including AMCs and hence may have received brokerage for security transactions done by any of the above AMCs during the period preceding twelve months from the date of this report.

Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-61150000; e-mail: compliance@sharekhan.com

Contact: myaccount@sharekhan.com